DALMAC ENERGY INC.

"DOING IT RIGHT"

DALMAC ENERGY INC. ANNUAL REPORT 2005

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Presidents Message

To our shareholders;

Dalmac Energy Inc. is a provider of "hot oiler", "hydro vac", "vacuum", "pressure" and "tanker truck" services to the energy sector. Dalmac also provides "methanol/ glycol", and "KCL" distribution and delivery services.

With 58 units in service, primarily in west central Alberta areas of Fox Creek, Hinton and Grande Cache, the demand for Dalmac's products and services is presently exceeding the company's current capacity to supply. The new equipment, consisting of vacuum, pressure and tanker trucks, which was purchased in November of 2004 for $1.5 million dollars, is currently operating at near full capacity. The industry is currently experiencing activity levels which are running at all time highs.

Current world commodity prices continue to be at an all time high levels. Exploration and production from the Western Canadian Sedimentary Basin is also continuing at record levels. Robust industry growth in our key areas of operation coupled With current demands for the company's products and services proves there is a currently positive fiscal environment and ample opportunity for growth.

The activity levels for Dalmac's operations are expected to remain very strong. According to CAODC forecasts, the industry will complete over 24,000 wells this year. With industry activity at these levels Dalmac is projecting a strong fiscal 2006.

John I. Babic
Chairman and Chief Executive Officer

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A") of the financial position and operating results of Dalmac Energy Inc. for the 16 months ended April 30, 2005 should be read in conjunction with corresponding financial statements for the 16 months ended April 30, 2005. The MD&A and financial statements for earlier periods should also be considered relevant. This MD&A was prepared August 22 2005. Additional information relative to Dalmac Energy Inc. can be found on the SEDAR website at www.sedar.com. In January of 2005 Dalmac received consent from the Alberta Securities Commission and the British Columbia Securities Commission to change its year end date to April 30 in order to be commensurate with the operations of its wholly owned subsidiary company McClelland Oil Services Inc. This has had the effect of making the first operating year of Dalmac Energy Inc a 16-month financial year. This, MD&A report represents the 16 month, audited year end, operations for the Corporation.

OVERVIEW

Dalmac Energy Inc. is a provider of "hot oiler", "hydro vac", "vacuum", "pressure" and "tanker truck" services to the energy sector. Dalmac also provides "methanol/glycol", and "KCL" distribution and delivery services. The year ending April 30, 2005, represents only 6 months of operations due to Dalmac having completed its qualifying transaction of McClelland Oil Services Inc. on November 8th of 2004.

At year end the Corporation had 58 service units which primarily service the west central Alberta areas of Fox Creek, Hinton and Grande Cache. This number includes the "hydro vac" units acquired as of the S Young Oilfield Ltd. transaction which was announced March 15, 2005. The demand for Dalmac's products and services is presently exceeding the company's current capacity to supply. This is resulting in higher levels of work turndowns than management would like. The new equipment, consisting of vacuum, pressure and tanker trucks, which was purchased in November of 2004 for $1.5 million dollars, is currently operating at near full capacity. The industry is currently experiencing activity levels which are running at all time highs. The Hinton – Grande Cache regions are in the beginning stages of robust growth and development and management is of the opinion that operations in these areas will continue to increase.

While the financial year which ended April 30, 2005 was 16 months in duration, it is important to note that the operational activities only made up approximately 6 months of that period since the completion of the qualifying transaction in November of 2004.

RESULTS OF OPERATIONS

The results of operations record approximately 6 months of operations for the period ended April 30, 2005. Prior to November 2004 Dalmac Energy Inc. was a Capital Pool Company with no assets other than the capital raised as a result of its IPO. Therefore the comparison with similar periods in the previous year provides no benefit. After the completion of Qualifying Transaction, being the purchase of McClelland Oil Services Inc. ("McClelland"), Dalmac's year-end was changed to April 30, 2005 in order to be coordinated with McClelland's operations. This resulted in Dalmac's first full financial year being 16 months in length.

SELECTED FINANCIAL YEAR END INFORMATION

For the periods ended (Cdn Dollars)	Sixteen months ended April 30, 2005	Five months ended Dec. 31, 2003
Revenues	7,309,943	0
Gross Margin	2,158,002	0
Gross Margin %	30%	-
Operating income (loss)	938,190	(17,271)
Operating income per share - basic	0.23	(0.02)
Operating income per share - diluted	0.20	(0.02)
Net income (loss)	327,551	(16,981)
Net income per share - basic	0.08	(0.02)
Net income per share - diluted	0.07	(0.02)
Total Assets	9,727,208	750,604
Total long-term financial liabilities	3,408,868	-
Weighted average common shares -basic	4,154,757	879,661
Weighted average common shares - diluted	4,816,814	1,476,524

The revenues from equipment operations were $7,309,943, for the 16 months ended April 30, 2005, this represents an increase of 100% over from the previous financial year.

Gross profit for the 16 months ended April 30, 2005 was $2,158,002 or 30% as a percentage of revenues, compared to no activity in the preceding financial year. The net income for the Corporation at the financial year ending April 30, 2005 was $327,551 or $0.08 per basic share and $0.07 fully diluted. The net loss for the Corporation for the preceding financial year was $16,981 or $0.02 per share on a fully diluted basis.

The cost of sales for the 16 month period ended April 30, 2005 consists of, equipment operating costs ($2,990,600), wages and benefits ($1,516,401), amortization ($338,846), property rent ($102,684), telephone ($41,802), utilities ($38,909), insurance and licenses ($37,344) ,and maintenance and property taxes ($35,355). Cost of goods sold totalled $5,151.002 or 70% as a percentage of revenue in the period ending April 30, 2005. There are no direct comparables in the period ending December 31, 2003

Selling, general and administration ("SG&A") costs for the 16 months ended April 30, 2005 were $1,219,812, up from $17,271 in the previous financial year. As a percentage of revenues the SG&A costs were 17% for the current period.

Total assets at April 30, 2005 increased by $8,976,604 to $9,727,208, an increase of 1196% up from $750,604 as at the period ending December 31, 2003.

The Corporation has incurred professional fee expenses of $203,153 which mostly apply to the CPC listing and qualifying transaction costs. Stock compensation expenses of $64,692 refer to the ascribed values associated with the issuance of stock options. Travel costs for the reporting period were $14,756 and office expenses were $53,644. Conference expenses of $6,389 are associated with operations related courses attended by certain employees. The total of the afore mentioned is $342,634. As the Corporation has only 6 months of revenues to report there is no meaningful correlation or comparison with previous periods.

For year the 16 month period ended April 30, 2005, the Corporation has paid $570,613 management fees, salaries and employee benefits. There were no salaries or employee benefits paid for the same period in the preceding financial year.

Selling, general and administration ("SG&A) costs for the financial year ended April 30, 2005 was limited to the expenses referred above below.

Expenses	Sixteen months ended April 30, 2005	Five months ended Dec. 31, 2003
Salaries and related benefits	507,513	-
Interest on LTD	120,733	-
Repairs & Maintenance	73,402	-
Management Salaries	63,100	-
Interest & Bank Charges	64,692	
Stock Compensation expense	66,309	
Office	53,644	2,693
Professional Fees	203,153	10,174
Travel and automotive	14,756	4,110
Dues and memberships	2,293	-
Telephone and Utilities	1,552	
Taxes and licenses	207	-
Conferences	6,389	-
Advertising and promotion	37,233	294
Bad Debts	4,836	
Total	1,219,812	17,271

SELECTED PERIOD INFORMATION

For the periods ended (Cdn Dollars)	16 Month Period Ended April 30, 2005	3 Month Period Ended Mar. 31, 2005	3 Month Period Ended Dec. 31, 2004
Revenues	7,309,943	4,441,921	2,083,643
Gross Margin	2,158,002	1,227,783	466,149
Gross Margin %	30%	28%	23%
Operating income (loss)	938,190	751,905	28,779
Operating income per share - basic	0.23	0.13	0.01
Operating income per share - diluted	0.20	0.12	0.01
Net income (loss)	327,551	627,905	(225,692)
Net income per share - basic	0.08	0.11	(0.04)
Net income per share - diluted	0.07	0.10	(0.04)

For the periods ended (Cdn Dollars)	3 Month Period Ended Sept. 30, 2004	3 Month Period Ended June 30, 2004	3 Month Period Ended Mar. 31, 2004	Incorporation to Period Ended Dec. 31,2003
Revenues	0	0	0	0
Gross Margin	0	0	0	0
Gross Margin %	0	0	0	0
Operating income (loss)	(76,169)	(13,006)	(66,388)	(17,271)
Operating income per share - basic	(0.03)	(0.01)	(0.02)	(0.01)
Operating income per share - diluted	(0.02)	(0.01)	(0.02)	(0.01)
Net income (loss)	(72,737)	(9,594)	(62,953))	(16,981)
Net income per share - basic	(0.02)	(0.01)	(0.02)	(0.01)
Net income per share - diluted	(0.02)	(0.01)	(0.02)	(0.01)

Due to the change in the year end, the period ended April 30, 2005 represented 6 months of operations, the period ended March 31, 2005 represented a full 3 months of operations and the period end December 31, 2004 represent 2 months of operations. The three month periods ended December 31, 2003, March 31, 2004, June 30, 2004 and September 30, 2004., represent periods of inactivity due to the Capital Pool status of the Corporation. All operational expenses occurred in these periods were in relation to the CPC objectives of pursuing a qualifying transaction.

For the period ended April 30, 2005, revenues from operations increased by 2,868,022, to $7,309,943, an increase of 65% from the revenues of $4,441,921 in the 3 month period ended March 31, 2005. Gross margin increased by $930,219 to $2,158,002 an increase of 76% from $1,227,783 in the previous period. Gross margin increased by 2% from 28% in the period ending March 31, 2005. This is because the period ended April 30, 2005 represents approximately six months of operations and the period ended March 31, 2005 represents only three months.

For the period March 31, 2005, revenues increased by $2,358,278 to $4,441,921 an increase of 114% over revenues of $2,083,643 in period ended December 31, 2004 which represented only 2 months of operations. The gross margin increased by $761,643 to $1,227,783, an increase of 171% over the $466,149 in the preceding period. As a percentage, the gross margin increased by 5% from the preceding period. The period ended March 31, 2005 represents the highest utilization of the Corporations products and services. This is typically the busiest quarter of the year due to the energy industry's winter drilling and servicing programs..

Net income decreased by $300,354 in the period ending April 30, 2005, to $327,551($0.07 per fully diluted share), a decrease of 53% from $627,905 ($0.10 per fully diluted share) reported in the period ending March 31, 2005. This decrease is a result of having a sixteen month period of expenses and operations, compared to the three month period of expenses and operations ended at March 31, 2005. In the period ending March 31, 2005, net income from operations increase by $853,597 to $627,905($0.10 per fully diluted share), compared to a net loss of $225,692 ($0.04 per fully diluted share) reported in the period ended December 31, 2004.

DALMAC ENERGY INC.

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2005, the Corporation had a bank indebtedness of $1,156,733, accounts payable of $1,056,703 and accounts receivable of $2,197,000. The working capital deficit of the Corporation at April 30, 2005 was $960,317 before adjusting for the current portion of long term debt. Given that the current portion of LTD is calculated over a 12 month period and the Corporation only has 6 months of revenues, the working capital deficiency should improve with each successive month. The Corporation is fully compliant with all current financial obligation and future capital purchases will be measured and structured in accordance with the Corporation's working capital capacity.

Changes in non cash working capital items increased $1,179,986, or 96% to $1,236,556 from $56,569 in the previous financial year.

The long term debt consists of conditional sales contracts for operational vehicles and equipment, bank loans payable and promissory notes. The conditional sales contracts amounted to $3,491,288. The bank loans payable consists of two separate loans for the purchase of S Young Oilfield Ltd. and other related equipment, totalled $356,477. The promissory notes, in the amount of $384,525, $333,415 and $140,000, are for the vendor take backs associated with the S Young Oilfield Ltd. and the McClelland Oil Services Inc. purchases.

The cash flow from financing activities increased by $4,919,044 to $5,680,777, an increase of 646% from $761,733 from the period ended December 31, 2003. Of the current year's net cash flows, $4,705,705 was from proceeds of long term debt and $975,247 which was derived from the issuance of share capital. The proceeds of long term debt refer to the financing on operating equipment purchases. The Corporation paid dividends of $175 which was the residual owing on the preferred shares that where redeemed at the conclusion of the Qualifying Transaction which occurred on November 8th , 2004. During the financial year ending April 30, 2005 Dalmac issued 210,169 common shares for the purchase of the business and assets of S Young Oilfield Ltd. Also, Wolverton Securities Ltd. exercised 84,812 of its agent's options for common shares of Dalmac energy for proceeds of $25,444 pursuant to the Agent's' stock option agreement.

For the 16 month financial year ended April 30, 2005, cash outflows from investing activities increased by $6,188,808 to $6,788,808, an increase of 1132% from $600,000 reported in the year ended December 31, 2003. This increase in investing activities reflects the purchase of McClelland Oil Services Inc and S Young Oilfield Ltd. assets. The net capital assets acquired totalled $5,884,785, and goodwill was $1,504,313.

The Corporation's cash flow for the 16 month financial year ended April 30, 2005 was $(1,244,916) compared to $88,183 in the previous financial year.

There is an element of cyclicality in the Corporations activities. The winter period is the most active for Dalmac and the demands on working capital are highest during this period.

SHARE CAPITAL

Summary of securities as at the end of the reporting period

a) Unlimited Common Shares without nominal or par value
Unlimited Preferred shares without nominal or par value

Dalmac Common Shares	Unlimited	5,795,964	3,350,983
Preferred Shares	Unlimited	Nil	Nil
Long Term Debt	N/A	$ 3,408,868	Nil

The following table sets forth options granted to Executive Officers and directors of the Corporation and which are outstanding as of April 30, 2005.

Group (Number of Persons in Group)	Number of Dalmac Shares Under Option	Date of Grant	Expiry Date	Exercise Price per Dalmac Share	Market Value of Securities Underlying Option on Date of Grant ($/Security)
Executive Officers including directors who are Executive Officers (one)	158,076	Dec. 22, 2003	Dec. 22, 2008	$0.30	$0.30
Directors who are not also Executive Officers (three)	177,022	Dec. 22, 2003	Dec. 22, 2008	$0.30	$0.30
Executive Officers including directors who are Executive Officers (one)	25,000	March 30, 2005	March 21, 2010	$0.45	$0.45
Directors who are not also Executive Officers (four)	125,000	March 30, 2005	March 21, 2010	$0.45	$0.45
TOTAL	485,098				

Note: (1) As the Corporation was not listed on an exchange on the date of grant, the initial CPC prospectus offering price of $0.30 has been used to determine the market value on the date of grant.

SHARE CAPITAL (cont.)

At April 30, 2005 the Corporation had 5,795,964 million common shares issued and outstanding.
The Corporation has issued 335,098 options to the Directors of the Corporation. These options are exercisable at $0.30 and were granted December 22, 2003. The expiry date on these options is December 22, 2008. The Corporation has issued a further 150,000 options, on March 21, 2005, to the Directors of the Corporation which are exercisable at $0.45. These options expire March 21, 2010.

On December 22, 2003 the Corporation also granted Wolverton Securities Ltd. 261,765 agents options to purchase common shares Dalmac Energy Inc. at $0.30 per common share. This option is exercisable until June 22, 2005. As of April 30, 2005, Wolverton has exercised 84,812 of these options.

RELATED PARTY TRANSACTIONS

During this reporting period the Corporation leased premises from 1010417 Alberta Ltd., related by common shareholders, for a total consideration of $40,800. The Corporation also acquired all of the outstanding shares of McClelland Oil Services Inc. of which the details can be found in note 2 of the April 30, 2005 financial statements, from a related company related by common shareholders. Also, as of April 30, 2005, the Corporation was indebted to two directors of the Corporation for an amount of $473,415 (note 8 of April 30, 2005 financial statements). The interest on these loans was $6,283. The afore mentioned transactions are in the normal course of operations and have been valued in the April 30, 2005 financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

STOCK - BASED COMPENSATION

The Corporation has adopted the Canadian Institute of Chartered Accountants ("CICA") amended standard for stock-based compensation. The company has adopted the fair value standard, which requires that compensation expense be calculated and recorded in the income statement for options issued on or after January 1, 2004.

CRITICAL ACCOUNTING POLICIES

The Corporation's financial statements have been prepared in accordance with Canadian generally accepted accounting Principals (GAAP) and sometimes may include estimates that reflect management's estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements for the period reported. Estimates are based upon historical experience and various other assumptions that reflect management's best judgments. These estimates are evaluated periodically and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results may differ.

RECENT INVESTMENT ACTIVITIES

On March 15, 2005, Dalmac announced completion of its purchase the business and assets of S Young Oilfield Ltd., a company engaged in "hydro vac" operations in the Fox Creek, Alberta region. Hydro vac operations involve excavation and trench of mainly non-contaminated materials where as McClelland vac operations mainly involve work with contaminated material. Dalmac paid a total of $850,000, of which $150,000 will be paid in cash on closing; $124,000 was paid by the issuance of Dalmac shares at $0.59. Dalmac paid out approximately $180,000 in debt on the equipment, and the Vendor will finance the balance over 3 years.

OUTLOOK

Current world commodity prices continue to be at an all time high levels. Exploration and production from the Western Canadian Sedimentary Basin is also continuing at record levels. This bodes well for Dalmac in the foreseeable future. With current demands for the company's products and services exceeding the Corporations capacity to supply the same, there is ample opportunity for growth.

The spring breakup conditions, which usually occur in April – May, impacted very slightly on the Corporation's activity levels. This impacted positively on the Corporation's financial and operating results.

Dalmac believes it has adequate working capital, cash flow from operations, and access to capital to fund ongoing business requirements. Management believes the Corporation has a cost structure that has sufficient variability to be able to adapt to the volatility of the industry. The Corporation has experienced management at all levels of operations and administration who are motivated to achieve success in both the short and long term.

Dalmac is currently reviewing expansion opportunities, which may involve the requirement for capital expenditures beyond the normal course for the Corporation. Dalmac may pursue any or all these opportunities that may present themselves. In doing so the Corporation may incur term debt, issue equity, and retain cash that might otherwise be paid as dividends or any combination of the foregoing.

The activity levels for Dalmac's operations are expected to remain very strong. According to CAODC forecasts, the industry will complete over 24,000 wells this year. With industry activity at these levels Dalmac is projecting a strong fiscal 2006.

Statements throughout this report that are not historical facts may be considered "forward looking statements". Such statements are based on current expectations that involve risks and uncertainties, which could cause actual results to differ from those anticipated. Important factors that can cause anticipated outcomes to differ materially from actual outcomes include the impact of general economic conditions, industry conditions, competition from other industry participants, volatility of petroleum prices, the ability to attract and retain qualified personnel, changes in laws or regulations, currency fluctuations, continued ability to access capital from available facilities and environmental risks. References in this MD&A to "Dalmac", the "Corporation", "Company", "us", "we" and "our" mean Dalmac Energy Inc. and its subsidiaries 750761 Alberta Ltd. And McClelland Oil Services Inc.

AUDITORS' REPORT

To: The Directors of
Dalmac Energy Inc.

We have audited the balance sheets of Dalmac Energy Inc. as at April 30, 2005 and December 31, 2003 and the statements of income, retained earnings, and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2005 and December 31, 2003, and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
July 27, 2005

"Watson Aberant LLP"

Chartered Accountants

Balance Sheets

Dalmac Energy Inc. (Incorporated under the Business Corporations Act of Alberta)

As at	April 30, 2005	December 31, 2003
Assets		
Current		
Cash	$ -	$ 88,183
Accounts receivable	2,197,000	-
Cash in trust	-	62,131
Inventory	247,826	-
Prepaid expenses	282,130	-
Short term investment (note 4)	-	600,290
	2,726,956	750,604
Property, plant and equipment (note 5)	5,495,939	-
Goodwill (note 6)	1,504,313	-
	$ 9,727,208	$ 750,604
Liabilities		
Current		
Bank indebtedness (note 7)	$ 1,156,733	$ -
Accounts payable and accrued liabilities	1,056,703	5,852
Income taxes payable	177,000	-
Current portion of long term debt	1,296,837	-
	3,687,273	5,852
Long term debt (note 8)	3,408,868	-
Future income taxes	519,000	-
	7,615,141	5,852
Shareholders' equity		
Share capital (note 9)	1,736,980	761,733
Contributed surplus	64,692	-
Retained earnings (deficit)	310,395	(16,981)
	2,112,067	744,752
	$ 9,727,208	$ 750,604

Approved on behalf of the board members

"John I. Babic"
Director

"Shawn T. Szydlowski"
Director

Statements of Income

Dalmac Energy Inc. (Incorporated under the Business Corporations Act of Alberta)

	April 30, 2005	December 31, 2003
Sales		
Sales service	$ 6,597,825	$ -
Sales products	712,118	-
	7,309,943	-
Cost of sales		
Fuel, maintenance, vehicles and equipment	2,990,600	-
Wages and benefits	1,516,401	-
Amortization	388,846	-
Property rent	102,684	-
Telephone	41,802	-
Utilities	38,909	-
Insurance and licenses	37,344	-
Maintenance, property	20,548	-
Property taxes and insurance	14,807	-
	5,151,941	-
Gross margin	2,158,002	-
Expenses Schedule 1	1,219,812	17,271
Income (loss) from operations	938,190	(17,271)
Other expenses (income)		
Loss on disposal of property, plant and equipment	17,980	-
Interest income	(8,943)	(290)
	9,037	(290)
Income (loss) before income taxes	929,153	(16,981)
Income taxes		
Current (note 10)	301,000	-
Future	300,602	-
	601,602	-
Net income (loss) for the period	$ 327,551	$ (16,981)

Statements of Retained Earnings

Dalmac Energy Inc. (Incorporated under the Business Corporations Act of Alberta)

	April 30, 2005	December 31, 2003
Deficit, beginning of period	$ (16,981)	$ -
Net income (loss) for the period	327,551	(16,981)
Dividends paid	(175)	-
Retained earnings (deficit), end of period	$ 310,395	$ (16,981)

Statements of Cash Flows

Dalmac Energy Inc. (Incorporated under the Business Corporations Act of Alberta)

	April 30, 2005	December 31, 2003
Cash flows from operating activities		
Net income (loss) for the period	$ 327,551	$ (16,981)
Adjustments for:		
Amortization	388,846	-
Future income taxes	300,602	-
Loss on disposal of property, plant and equipment	17,980	-
Stock compensation expense	64,692	-
	1,099,671	(16,981)
Change in non cash working capital items	(1,236,556)	(56,569)
	(136,885)	(73,550)
Cash flows from investing activities		
Purchase of capital assets, net	(5,884,785)	-
Purchase of goodwill	(1,504,313)	-
Investment in short term investment	600,290	(600,000)
	(6,788,808)	(600,000)
Cash flows from financing activities		
Proceeds of long term debt, net	4,705,705	-
Proceeds on issuance of share capital, net	975,247	761,733
Dividends paid	(175)	-
	5,680,777	761,733
(Decrease) increase in cash	(1,244,916)	88,183
Cash, beginning of period	88,183	-
(Bank indebtedness) cash, end of period	$ (1,156,733)	$ 88,183

Dalmac Energy Inc. (Incorporated under the Business Corporations Act of Alberta)

1. NATURE OF OPERATIONS

Dalmac Energy Inc. is incorporated under the Business Corporations Act of Alberta.

Effective November 8, 2004 the Company acquired for cash and common shares control of all the outstanding shares of McClelland Oil Services Inc. (McClelland). McClelland operates a fleet of truck mounted equipment used in the exploration, completion and production of oil and gas fields in northwest Alberta.

In addition, effective March 14, 2005, the Company acquired for cash and common shares the assets and business of S Young Oilfield Ltd. (S Young). S Young is engaged in "hydro vac" operations in northwest Alberta.

2. BUSINESS COMBINATIONS

McClelland Acquisition shares

The total purchase price was $2,280,000, comprised of $911,000 cash, $509,000 of promissory notes, and 2,150,000 common shares valued at $0.40 per share equalling $860,000. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

As at November 8, 2004		
Current assets	$	2,164,204
Property, plant and equipment		3,900,931
Goodwill		1,222,713
Total assets acquired		7,287,848
Current liabilities		(3,047,722)
Long term debt		(1,741,728)
Other liabilities		(218,398)
Total liabilities assumed		(5,007,848)
Net assets acquired	$	2,280,000

S Young Acquisition assets

The total purchase price was $850,000, including $340,000 cash, $386,000 of promissory notes, and 210,169 common shares at $0.59 per share equalling $124,000. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

As at March 14, 2005		
Property, plant and equipment	$	568,400
Goodwill		281,600
Total assets acquired	$	850,000

The results of operations from these acquisitions are included in the accounts from the effective date of acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant policies are detailed as follows:

(a) Consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary McClelland Oil Services Inc.

(b) Inventory
Inventory is valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost. The Company provides for amortization using the following methods at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates and methods are as follows:

Plant equipment	10.0 %	Straight line
Automotive	12.5 %	Straight line
Furniture and fixtures	25.0 %	Straight line
Rental equipment	8.3 %	Straight line
Service equipment	8.3 %	Straight line
Service vehicles	12.5 %	Straight line

Amortization of leasehold improvements is recorded over the remaining term of the lease.

One half the normal rate of amortization is recorded in the year of acquisition.

(d) Goodwill

Goodwill is the amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.
Goodwill is not amortized and it is tested for impairment annually at year end, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The implied fair value of goodwill is determined by assessing the future earnings of the acquired business. When the carrying amount of the goodwill relating to the acquired business exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess.

(e) Long lived assets

The Company reviews capital assets and goodwill for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. An impairment is recognized when the carrying amount of an asset is greater than the future undiscounted net cash flows expected to be generated by the asset. The impairment is measured as the difference between the carrying value of the asset and its fair market value calculated using quoted market prices or discounted cash flows. During the period, no events or circumstances occurred to indicate that the carrying value may not be recoverable and therefore no impairment was recognized in these financial statements.

(f) Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

(g) Revenue recognition

Revenue is recognized when services are performed and when products are sold.

(h) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(i) Stock based compensation

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants relating to stock based compensation. Under the new standard, all stock based compensation is measured and recognized based on the fair value of the instruments and expensed in the financial statements.

As new options are granted, the fair value of these options will be expensed over the vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of the grant using the Black Scholes option pricing model. Upon the exercise of stock options, consideration received together with amounts previously recorded in contributed surplus are recorded as an increase in share capital.

(j) Earnings (loss) per share

The Company has applied the Canadian Institute of Chartered Accountants' accounting standard for earnings per share calculation and disclosure. Under the standard, the treasury stock method of calculating per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

(k) Share issuance costs

Costs related to the issuance of shares are charged against share capital.

4. SHORT TERM INVESTMENT

	April 30, 2005	December 31, 2003
One year term deposit, Bank prime rate less 2.25% compounded monthly, maturity date of December 23, 2004	$ -	$ 600,290
	$ -	$ 600,290

5. PROPERTY, PLANT AND EQUIPMENT

	April 30, 2005			December 31, 2003
	Cost	Accumulated Amortization	Net	Net
Land	$ 32,657	$ -	$ 32,657	$ -
Plant equipment	391,480	114,295	277,185	-
Automotive	103,317	50,203	53,114	-
Furniture and fixtures	158,720	106,247	52,473	-
Leasehold improvements	103,458	46,206	57,252	-
Rental equipment	67,318	24,066	43,252	-
Service equipment	4,160,383	1,249,377	2,911,006	-
Service vehicles	3,463,265	1,394,265	2,069,000	-
	$ 8,480,598	$ 2,984,659	$ 5,495,939	$ -

6. GOODWILL

	April 30, 2005	December 31, 2003
Goodwill	$ 1,504,313	$ -

Goodwill reflects the excess consideration given over the fair value of the net assets acquired of McClelland Oil Services Inc. and S Young Oilfield Ltd. These amounts are $1,222,713 and $281,600, respectively.

7. BANK INDEBTEDNESS

Bank indebtedness consists of a demand loan at bank prime plus 1% to a maximum of $1,200,000. The loan is secured by a general security agreement covering all assets of the Company.

	April 30, 2005	December 31, 2003
Bank indebtedness	$ 1,156,733	$ (88,183)

8. LONG TERM DEBT

	April 30, 2005	December 31, 2003
Conditional sales contracts, consisting of thirteen separate contracts, secured by specific vehicles and equipment, payable in blended monthly installments that vary over the term of each contract at rates ranging from 7.75% to 9.5%, due on various dates to December 2009	$ 1,030,857	$ -
Conditional sales contracts, consisting of nine separate contracts, secured by specific vehicles and equipment, payable in blended monthly installments that vary over the term of each contract at rates ranging from 6.60% to 9.55%, due on various dates to December 2009	2,188,575	-
Conditional sales contract, secured by specific vehicle and equipment, payable in blended monthly installments of $4,136 at a rate of 8.5%, due April 2010	216,590	-
Conditional sales contracts, consisting of three separate contracts, secured by specific vehicles, payable in blended monthly installments that vary over the term of each contract at rates ranging from 0% to 4.9%, due on various dates to December 2007	55,266	-
Bank loans payable, consisting of two separate loans, payable in blended monthly installments of $7,949 over forty eight months at bank prime rate plus 1.25%, secured by a general security agreement covering all assets of the Company, due March 2009	356,477	-
Promissory note, payable in equal blended monthly installments of $11,439 over thirty six months at a rate of 4.25%, due March 2008	384,525	-
Promissory note due to related party (a director of the company), payable in equal blended monthly installments of $8,373 over forty eight months at a rate of 4.25%, due November 2008	333,415	-
Promissory note due to related party, (a director of the company), payable in equal blended monthly installments of $4,148 over thirty six months with the first such payment commencing one month after the previous promissory note is paid in full, to bear interest commencing from that date at a rate of 4.25%	140,000	-
	4,705,705	-
Less current portion	1,296,837	-
Due beyond one year	$ 3,408,868	$ -

The carrying values of the equipment and vehicles secured by the above conditional sales contracts exceed the total of the indebtedness under these contracts.

Estimated principal re payments are as follows:

2006	$ 1,296,837
2007	1,195,461
2008	1,107,328
2009	710,173
2010	319,803
Subsequent years	76,103
	$ 4,705,705

9. SHARE CAPITAL

a) Authorized
Unlimited number of common voting shares
Unlimited number of preferred shares, issuable in series

b) Issued

	April 30, 2005		December 31, 2003	
	Number issued	Amount	Number issued	Amount
Beginning balance	3,350,983	$ 761,733	-	$ -
Issued on McClelland acquisition	2,150,000	860,000	-	895,295
Issued on S Young acquisition	210,169	124,000	-	-
Issued on exercise of options	84,812	25,444	-	-
Issued	-	-	3,350,983	-
Less related costs	-	(34,196)	-	(133,562
Ending balance	5,795,964	$ 1,736,980	3,350,983	$ 761,733

c) Escrowed shares
733,333 common shares issued prior to the Company's Initial Public Offering have been deposited with the Trustee under an escrow agreement. In addition, 56,400 common shares purchased by Directors and Officers pursuant to the Company's Initial Public Offering have also been deposited with the Trustee under an escrow agreement.

Subject to certain exemptions permitted by the Toronto Stock Exchange, all securities of the Company held by Directors and Officers of the Resulting Issuer will also be escrowed. As a result of the acquisition of McClelland Oil Services Inc. 2,000,000 additional shares have been deposited in escrow as two Directors of the Company received these shares.

d) Stock options
The Company approved a stock option plan in 2003. All options granted pursuant to this plan shall be subject to rules and policies of any stock exchange or exchanges on which the common shares of the Company are listed. The aggregate number of shares issuable upon the exercise of all options granted under the plan shall not exceed 10% of the issued and outstanding common shares of the Company from time to time. As at April 30, 2005, the Company had granted options under this plan as follows:

	April 30, 2005		December 31, 2003	
	Number of options	Weighted average share price	Number of options	Weighted average share price
Beginning balance	596,863	$ 0.30	-	$
Granted to directors	150,000	0.45	335,098	0.30
Granted to agent	-		261,765	0.30
Exercised	(84,812)	0.30	-	
	662,051	$ 0.33	596,863	$ 0.30

As of April 30, 2005, the share options outstanding under the plan have expiry dates as follows:

Options granted	Exercise price	Expiry date
335,098	$ 0.30	December 22, 2008
176,953	0.30	June 22, 2005
150,000	0.45	March 21, 2010

Stock based compensation plans

The fair value of each option grant is estimated on the interim date using the Black Scholes option pricing model. The following weighted average assumptions were used to determine the fair value of options granted during the period ended April 30, 2005:

Weighted average fair market value per option	$ 0.0866
Average risk free interest rate	2.5%
Average volatility	4.5%
Expected life	3.77 years

10. INCOME TAXES

As a result of the acquisition of McClelland by the Company, McClelland no longer qualifies for the small business deduction under the Canadian Income Tax Act. This results in an increase in future tax expense of $206,870 during the current period.

The net future income tax liability is the difference between the tax base and reported amounts of property, plant and equipment of $519,000.

The Company's income tax expense consists of the following:

Current statutory income tax rate 33.6%.

	April 30, 2005
Expected income tax expense	$ 312,195
Originating (reversing) temporary differences recorded at tax rates expected to be in effect when realized	69,506
Non deductible expenses	6,990
Non taxable loss on sale of assets	6,041
Increase in future income tax expense due to rate change	206,870
Actual tax expense	$ 601,602

11. EARNINGS (LOSS) PER SHARE

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated to reflect the dilutive effect of stock options outstanding. Earnings per share is calculated as follows:

	April 30, 2005			December 31, 2003		
	Net income (loss)	Weighted average common shares	Net income (loss) per share	Net income (loss)	Weighted average common shares	Net income (loss) per share
Basic	$ 327,551	4,154,757	$ 0.08	$ (16,981)	879,661	$ (0.02)
Fully diluted	327,551	4,816,814	0.07	(16,981)	1,476,524	(0.02)

12. LEASE COMMITMENTS

The Company's total commitments, under various operating leases and property lease agreements, exclusive of occupancy costs, are as follows:

2006	$ 313,655
2007	354,105
2008	174,094
2009	52,705

13. RELATED PARTY TRANSACTIONS

a) During the period the Company leased premises from 1010417 Alberta Ltd., related by common shareholders, for total consideration of $40,800.

b) During the year the Company acquired all of the outstanding shares of McClellland Oil Services Inc., the details of which can be found in note 2 to these financial statements, from a related company related by common shareholders.

c) As at April 30, 2005 the Company was indebted to two directors of the Company for an amount of $473,415 (see note 8). With respect to these loans interest of $6,283 had been paid during the period.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

14. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of accounts receivable which will result in future cash receipts, as well as bank indebtedness, accounts payable and accruals, and long term debt which will result in future cash outlays.

The Company is exposed to the following risks in respect of certain of the financial instruments held:

(a) Credit risk
Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. However, to mitigate this risk the Company regularly reviews customer credit limits.

(b) Fair value
The carrying values of the financial instruments noted above approximate their fair values.

(c) Interest rate risk
The Company manages its exposure to interest rate risk by securing financing with a fixed interest rate for capital asset acquisitions.

Schedule to Financial Statements

Schedule of expenses

Schedule 1

	April 30, 2005	December 31, 2003
Salaries and related benefits	$ 507,513	$ -
Professional fees	203,153	10,174
Interest on long term debt	120,733	-
Repairs and maintenance	73,402	-
Interest and bank charges	66,309	-
Stock compensation expense	64,692	-
Management salaries	63,100	-
Office	53,644	2,693
Advertising and promotion	37,233	294
Travel and automotive	14,756	4,110
Conferences	6,389	-
Bad debts	4,836	-
Dues and memberships	2,293	-
Telephone and utilities	1,552	-
Taxes and licenses	207	-
	$ 1,219,812	$ 17,271

BOARD OF DIRECTORS

John I. Babic
Chairman and Chief Executive Officer
Dalmac Energy Inc.

Ernest Slatter
Director
Dalmac Energy Inc.

Steven M. Babic
Sales and Marketing
Dalmac Energy Inc.

Shawn T. Szydlowski
National Accounts Manager
Acklands Grainger Inc.

Leonard D Jarozuk
President
Enterprise Oil Ltd.

HEAD OFFICE

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Telephone: (780) 909-4220
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jbabic@dalmacenergy.com

BANKER

Canadian Western Bank
Edmonton, Alberta

AUDITOR

Watson Aberant LLP Chartered Accountants
Edmonton, Alberta

LEGAL COUNSEL

Chamberlain Hutchison
Edmonton, Alberta

STOCK EXCHANGE LISTING

Dalmac Energy Inc. is traded on the TSX V Exchange under the trading symbol DAL. Fiscal year-end is April 30.

TRANSFER AGENT & REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta

INVESTOR INQUIRIES

Contact Name: John I. Babic
Telephone: (780) 909-4220
Fax: (780) 440-0935

NOTICE OF ANNUAL MEETING

Annual and Special Meeting
November 7, 2005
2:00 p.m.
Coast Terrace Inn - Edmonton South
4440 Gateway Boulevard,
Edmonton, Alberta
T6H 5C2
Telephone: (780) 437-6010
Fax: (780) 431-5801

"DOING IT RIGHT"

DALMAC ENERGY INC.

ANNUAL REPORT 2005